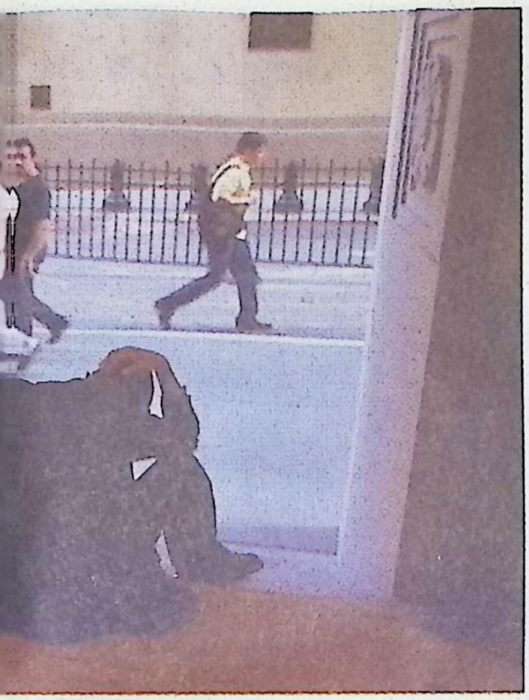


AFP

the US economy was absorbing the excess saving of Asia and the Middle East. But how is this saving to be absorbed?

The answer is that the US government must run a larger deficit. This is easy to do, as expenditures on infrastructure, energy security, and health care are needed. There is a great deal of money that needs to be spent: to improve the infrastructure in the United States, to rebuild cities, to support renewable energies particularly solar and wind generated electricity, to improve transport systems, to build more hospitals, train more doctors, train more nurses, build up integrated medical records, etc.

But this must be done with some flexibility: For example, the expenditures on such items should be driven by the size of the excess Asian and Middle Eastern savings defined by the change of the foreign exchange reserves held by a group of Asian and Middle Eastern countries.

Similarly, there must be a major increase in the regulation and supervision of financial institutions; the institutions hate such a thought but having all but destroyed us they deserve no mercy. No one knows exactly what to do, but the experts will think of something. The pendulum has swung too far towards no supervision, and needs to reverse itself. For sure this will happen in the United States and the UK, but how it will end up is uncertain. The financial institutions will fight such regulation and supervision as hard as they can.

The only difficulty is the American political system is focused on reducing the government deficit. Just listen to the speeches by the candidates for the presidency. I believe that the deficit will increase, but it is possible that American politicians will get serious about deficit reduction. If they do, the world economy will remain in a weakened state

Impact on Bangladesh

The most important thing for Bangladesh's economic future is to maintain export growth and to diversify the types of exports. This will not be easy during the next five years, given all the problems discussed in this article. But this I think should be the front line of development policy. It is not business as usual!

We may see in the next year a serious decline in exports as the European and American markets weaken. The apparel sector probably faces a terrible year. All of the joy now being expressed is hope flying in the face of reality. At present exchange rates the apparel sector could be largely bankrupt in 12 months.

Bangladesh can be competitive, but there are urgent actions to keep in mind.

The exchange rate should be maintained at a level that supports competitiveness of exports. That requires a significant depreciation.

Particular problems of export sectors should be tackled in a serious way. This is simply not being done; instead there are a lot of promises and words but little happens. Examples: proper testing of shrimp for contamination, cleaning up the environmental disaster of the tanneries, putting the jute sector on a proper basis uncontaminated by SOEs, easing the exchange control regulations, simplifying customs administration, and building the port and railway facilities needed for a massive growth of industrial exports.

The Bangladesh financial system must do a much better job of working with export companies. The banks and the courts must do a better job of forcing exit on failing companies. The failure to do so allows companies to operate when they are bankrupt. This leads to unrealistic competition and undermines industry.

Another area of concern is financing of the energy sector. The current more conservative posture of the international commercial banks makes financing of such profits more difficult. The international oil companies do not face such problems, but IPP projects certainly do. Three years ago, financing $1 billion worth of projects in the power sector would have been straightforward; the changed conditions make this much more difficult and more expensive.

Finally, we come to foreign investment. As for portfolio investment, this may well increase. Anything is possible. For FDI in manufacturing we would expect a dramatic increase; costs are rising rapidly in other countries, and one of the best cost saving actions a company can take is to move to Bangladesh!

References

1. Very large loans above the prime loan limit made to persons with the highest credit rating were also "subprime" as they did not conform for being too large

Forrest Cookson *is an economist.*